



DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

Hall of Finance & Records
12 Civic Center Plaza, Room 202
P. O. Box 567
Santa Ana, California 92702-0567

(714) 834-2450 FAX (714) 834-2569

December 1, 1999

Honorable Board of Supervisors
County of Orange
Santa Ana, California

Your Honorable Board:

The Comprehensive Annual Financial Report of the County of Orange, State of California, for the fiscal year ended June 30, 1999, is hereby submitted in accordance with the provisions of Sections 25250 and 25253 of the Government Code of the State of California. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the County. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

Copies of this Comprehensive Annual Financial Report, the County Proposed and Final Budgets, booklets specifying the tax rates and assessed valuations of taxing agencies in Orange County, and financial reports of certain funds or functions for which the County has fiduciary responsibility, may be obtained from the office of the County Auditor-Controller.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, the County's organizational chart and a list of principal County officials. The Financial Section includes the general purpose financial statements, the required supplementary information, and the combining and individual fund and account group financial statements and schedules, as well as the independent auditor's report on the financial statements and schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and questioned costs, and the independent auditor's report on internal control and compliance with applicable laws and regulations, are included in separate annual publications.

This report includes all funds and account groups of the County, as well as its component units. Component units are separate legal entities for which the County is considered to be financially accountable. The County provides a full range of general government services, including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, waste management, airport management, and general financial and administrative support.

Blended component units, although legally separate entities, are, in substance, part of the County's operations, and therefore data from these units are combined with data of the County. The County has no component units which require discrete presentation. The following entities are presented as blended component units in the general purpose financial statements for the fiscal year ended June 30, 1999: the Orange County Flood Control District, Orange County Development Agency, Orange County Housing Authority, Orange County Civic Center Authority, Orange County Financing Authority, Orange County Special Financing Authority, Orange County Public Financing Authority, Orange County Public Facilities Corporation, and certain special districts.

Economic Condition and Outlook

Area Population

With a population of over 2.7 million, Orange County is one of the major metropolitan areas in California and the nation. Orange County represents the third most populous county in the state, and ranks sixth in the nation. Population growth mirrors the average for the state, about 1.5% annually.

Area Economy

Orange County represents one of the major economic centers in the state and nation. If Orange County were a nation, its economy would rank 32nd among all the countries in the world, above such countries as Greece, Israel, and the Philippines. The Anderson Center for Economic Research at Chapman University estimates its Gross County Product (GCP) at \$104.9 billion during 1999.

Orange County government has emerged from bankruptcy with a solid recovery plan in effect. Housing price appreciation has returned, with double-digit appreciation evident in certain areas of the County. The County also continues to be represented by a solid economic base in construction, non-durable goods, retail trade and services. It should be noted that a significant sector of the local economy is dependent upon international trade. Therefore, while the forecast for Orange County's economy remains bright, the current problems in the global economy (Russia, Latin America and particularly Asia) will have some impact on the County's overall level of economic growth.

Unemployment Rate and Tax Base

Orange County's unemployment rate, which reflects the number of unemployed County residents as a percent of the labor force, remains one of the lowest among California counties. As of October 1999, the unemployment rate stood at 2.5%. This compares favorably to rates of 5.6% for neighboring Los Angeles County, 4.6% for California, and 3.8% for the nation.

After an extended period of a depressed real estate market, Orange County's housing sales and prices have rebounded to healthy levels. This is beginning to be reflected in the value of Orange County's tax base. Total assessed valuation increased by \$16.6 billion, or 8.6% over FY 1998-99 reaching \$209.3 billion in FY 1999-2000.

Recent Industry Employment Trends and the Local Economy

Despite the tight housing market, monthly wage and salary employment statistics released by the State Employment Development Department (EDD) estimate the number of jobs located in Orange County will increase regardless of where the employee resides. The latest wage and salary employment estimates from EDD illustrate the County's strong economic base. Total non-farm jobs in the County reached 1,331,900 in July 1999, reflecting a 2.8% increase over the 1,295,400 jobs in July 1998.

Since July 1998, 36,500 non-farm jobs were added in the County. Employment in the trade sector recorded gains of 4,400, led by wholesale trade with 2,500 jobs. Manufacturing employment was up by a net of 2,900, led by the durable goods sector with 3,300 jobs. Employment in the services sector increased by 15,300 led by business services with 5,700 jobs. Other significant industry categories with job gains included construction (up 4,800); transportation and public utilities (up 2,700); finance, insurance and real estate (up 1,700) and government (up 4,700). Mining employment remained relatively unchanged over the year.

County Median Family Income

According to the Anderson Center for Economic Research, Orange County's median family income is expected to increase from \$63,478 during 1999 to a figure of \$65,916 in 2000, representing an increase of 3.8%.

Bankruptcy Recovery

On December 6, 1994, the County of Orange filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of substantial losses in the Orange County Investment Pool (the "Pool"). The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately \$1.6 billion, approximately \$600 million of which was allocable (on a pro rata basis) to the County's accounts, with substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts.

The County's bankruptcy was the largest municipal bankruptcy ever. After a period of about eighteen months, the County's comprehensive recovery plan was approved by the Federal Court and the County emerged from the bankruptcy on June 12, 1996. The County's recovery from bankruptcy was in large measure due to the implementation of a strong County Executive Officer (CEO) concept of corporate management, unique among California counties. The corporate management system, which incorporated a fundamental restructuring of the core County government, implementation of annual business plans, and a long range strategic financial plan, has resulted in a fiscally viable County that was recently recognized by Moody's Investor's Service as the second highest rated county in California.

The recovery has not been without significant cost, namely a debt burden of almost \$1 billion. Recognizing the need to reduce this burden in order to free up scarce general fund dollars for more productive uses, the Board of Supervisors has made early debt reduction a high priority. Consequently as unanticipated revenues have become available the Board has directed that most of the money be dedicated to early debt reduction. To date about \$31 million in bankruptcy related debt has been removed from the books through a partial legal defeasance of the 1995 Refunding Recovery Bonds.

During the bankruptcy, the County filed suit against several financial institutions (most notably Merrill Lynch), bond attorneys and others. All the bankruptcy related lawsuits have been settled out-of-court. About \$865 million are in escrow to be distributed by Tom Hayes, the litigation representative, when his final report is accepted by the Federal court. A recent claim for an additional \$48.7 million in compensation by the County's bankruptcy attorneys, Hennigan, Mercer and Bennett has delayed distribution of the monies to the pool participants. On November 10, 1999 Judge Gary Taylor awarded \$3 million to the law firm. All parties have waived their rights to appeal or otherwise contest Judge Taylor's decision. The County's share of the escrowed proceeds is estimated to be about \$290 million.

The Board has approved using the County's entire (general fund) share of the proceeds for a tender offer to retire the Series 1994, 1996 and 1997 Pension Obligation Bonds.

Major Initiatives for Fiscal Year 1998-99

Fiscal Year 1998-99 General Fund Budget

Total discretionary funding for the County's FY 1998-99 Final Budget was \$354.5 million, an increase of 2.1% over the FY 1997-98 Budget. This modest increase was due to growth in motor vehicle license fee revenues, property tax, operating transfers, sales and other taxes. The County used the increased discretionary funding to increase provisions for contingencies to \$16 million and added \$5 million to the Reserve for Debt Repayment, which brought the total Reserve for Debt Repayment to \$21.57 million for the FY 1998-99 Final Budget. Other uses of the discretionary funding included \$32 million set aside for a new South Municipal Court Facility, assuming the sale of the existing South Municipal Court Facility, \$8 million for Deferred Maintenance and Americans with Disabilities Act (ADA) projects, and increased funding for Public Safety.

Trial Court Funding

Orange County and the Superior Court of California/County of Orange, settled their differences over ownership and use of fee, fine, and forfeiture revenue not specifically addressed under the Lockyer-Isenberg Trial Court Funding Act of 1997 (Assembly Bill 233). These revenues, approximately \$5.4 million annually, are used to help meet the County's obligation to finance court operations, which are now a state government function.

Negotiations with Employee Bargaining Units

The Fiscal Year 1998-1999 and 1999-2000 Memoranda of Understanding, have been extended for an additional year with all labor organizations with the exception of the Orange County Attorney's Association (OCAA) and the Association of Orange County Deputy Sheriffs (AOCDS).

The extensions provide for a 3.25% base increase and a 1% non-base building performance pay incentive. The payout of incentives in year three of the Agreement will be in accordance with the jointly developed Performance Incentive Program. The 1% incentive that was originally established to be paid in year two of the Agreement will be combined with the third year for a total amount of 2%. These payouts will begin in January 2001.

The Memorandum of Understanding for the AOCDS expired in October 1999. Negotiations with this labor organization concluded in October 1999 and resulted in a three-year Agreement, which will expire in October 2002. This Agreement provides for a 3.5% or 3.75% increase for specific classifications in the first year of the Agreement, a 4% increase for all classifications in the second year of the Agreement, and fully paid retirement in the third year of the Agreement.

The Memorandum of Understanding for OCAA will expire in June 2000.

The cost of salary increases for FY 2000-01, including the impact on retirement, is estimated to be \$42.1 million, of which about \$8.5 million is the general fund's share. The costs of salary increases have been included in the County Strategic Financial Plan.

Major Initiatives for the Future

Year 2000 Compliance

The County has assessed the status of Y2K compliance with respect to every County department and has developed a plan to modify or replace any non-compliant system in a manner that it believes will eliminate significant operational problems. Most systems are now in compliance, however, several departmental systems are not scheduled to be completed until late 1999. Further disclosure of the County's compliance efforts is contained in the required supplementary information following the notes to the general-purpose financial statements. The County's disclosures are in full compliance with the Governmental Accounting Standards Board (GASB) Technical Bulletins No. 98-1 and No. 99-1, which require specific disclosures about Y2K issues for financial statements.

Retirement Rate Agreement

The Board and the Orange County Employees' Retirement System (OCERS) Board signed an agreement in 1996 for the use of \$318 million in pension obligation bond proceeds. The proceeds from the bonds were placed in an investment account within OCERS, for the sole purpose of paying County annual obligations for retirement. The investment account is credited with market earnings of OCERS and debited according to a formula that considers available balance and obligations.

The County is required to pay any retirement costs not paid by the investment account. Due to higher than anticipated investment earnings, the County's \$41.5 million retirement cost for the year 2000 will be paid entirely by the investment account.

Marine Corps Air Station El Toro

In 1993, the Defense Base Realignment and Closure Commission directed the closure of Marine Corps Air Station (MCAS) El Toro ("El Toro" or "the base") effective July 1999. In April 1995, the County was designated by the Federal government as the Local Redevelopment Authority (LRA) for the base. As the LRA, the County is responsible for preparing and implementing a "Community Reuse Plan" for transition of the 4,700 acre base to civilian uses. The Federal government encourages the development of Community Reuse Plans which facilitate local economic redevelopment, job creation and timely environmental cleanup.

In December 1996, the Board, acting as the LRA, adopted a final MCAS El Toro Community Reuse Plan, approved the Homeless Assistance Submission, and certified the supporting Environmental Impact Report (EIR). The Community Reuse Plan was subsequently submitted to the Department of Navy for consideration. When the Community Reuse Plan was adopted, the Board directed the CEO to initiate the next phase of planning for the base, specifically, the preparation of a Planned Community/Specific Plan for the entire base and an Airport System Master Plan addressing aviation services and facilities at both El Toro and John Wayne Airport, Orange County. The Marines vacated the base in June 1999.

The County has retained two consultant teams to prepare the Planned Community/Specific Plan and Airport System Master Plan. These plans, combined with additional planning to be undertaken by the El Toro Master Development Program will form the basis for recommendations regarding to whom, and by what means, base property should be conveyed. It is anticipated that much of the base will be requested by and conveyed to the County, which will then serve as a "master developer" of the site. The County's role will extend over many years, and can be characterized in two primary phases: Planning and Maintenance/Implementation. The Planning Phase is currently in progress and is scheduled to be completed by mid-2000. During this phase, a Planned Community/Specific Plan, Airport System Master Plan and a second EIR will be prepared and submitted to the Board for consideration. The County's current Maintenance and Implementation Phase includes a personal property distribution program, caretaker services to maintain base facilities, and interim leasing of selected recreational and public service facilities.

In October 1999, Orange County voters qualified The Safe and Healthy Communities Initiative as an election ballot measure. The initiative would require a two-thirds vote at a county general election to ratify an act by the County to approve any new or expanded jail, hazardous waste landfill, or civilian airport project.

Santa Ana River Mainstem Project

The Santa Ana River Mainstem Project is a major flood control project designed to prevent the type of devastating damage caused by large-scale flooding which occurs on the average of every one hundred years in the Santa Ana River flood plain. It involves a combination of flood channel widening and reinforcement, construction of a new dam, Seven Oaks Dam, and raising of an existing dam, Prado Dam.

The Federal government, Orange County Flood Control District (OCFCD), San Bernardino County Department of Transportation/Flood Control District, and Riverside County Flood Control & Water Conservation District are cost sharing the U.S. Army Corps of Engineers' (COE) estimated total project cost of \$1.3 billion. The OCFCD currently estimates its share to be \$413 million for acquisition of real property rights for construction of the project, relocation of designated roads, bridges, trails, channels and utilities, and construction cost share contributions. This estimate is based on recent indication of support by the COE for the Federal government to finance 50% of the total Prado Dam costs, subject to Federal appropriations to do so.

OCFCD's remaining share of project costs exceeds current available funds. However, the project has been authorized by the State Legislature, making it eligible for State Flood Control Subventions (reimbursement of 70% of OCFCD expenditures). The State currently has \$21 million budgeted to reimburse OCFCD for this project. This money will be disbursed to the OCFCD as claims are reviewed and approved by the State Department of Water Resources. To date, the OCFCD has spent approximately \$193 million, submitted \$119.5 million in claims for reimbursement, and has received approximately \$70.9 million.

Strategic/Financial Plan

On December 15, 1998 the Board approved the Strategic Financial Plan Update for FY 1999–2000. The 1999 Update incorporated the use of Bankruptcy related litigation settlement proceeds to eliminate the outstanding 1995 Refunding Recovery Bonds. Total elimination of those bonds was estimated to free up an average \$22 million per year to fund strategic priorities. However, subsequent to the Board's approval of the 1999 Update, federal and state agencies disallowed the claiming of debt service paid on the Pension Obligation Bonds (Series 1994A, 1996A and 1997A) as retirement costs for grants. This grant claiming change makes the Pension Obligation Bonds payable from the General Fund without reimbursement from other sources. Analyses by County Financial Advisors determined that General Fund savings from elimination of the Pension Bonds would be greater than that achieved from elimination of the 1995 Recovery Bonds.

Consequently, the Board approved a plan in October 1999 to eliminate or reduce the Pension Bond debt through the use of a "tender offer" to bond holders due to greater general fund costs savings than could be achieved through the defeasance of the 1995 Recovery Bonds.

The Strategic Financial Plan 2000, which begins a new two-year cycle of financial planning, was approved by the Board on November 9, 1999. The Strategic Financial Plan 2000 indicated that baseline programs were growing faster than the ability of the general fund to pay for them. Beginning in FY 2005-2006, an imbalance between sources and uses is indicated and forecasted to grow to about \$20 million per year in FY 2008–2009. Fortunately, the Strategic Financial Plan affords the County enough early warning to meet the challenge in a deliberate and prudent manner. The CEO has directed the following approach be implemented:

- Zero based budgeting
- Prioritization of programs requiring general fund money
- Evaluation of service delivery efficiency
- Alternate methods of service delivery
- Targeting of strategic reductions

The only source of new money identified in the Strategic Financial Plan 2000 was the County's share of the National Tobacco Litigation Settlement (Master Settlement Agreement). The Board approved the use of Tobacco Settlement money as available to eliminate remaining Pension Obligation Bond and 1995 Recovery Bond indebtedness. The Board also committed to spending some of the Tobacco revenue to gradually increase the County's contingencies reserves from the current level of \$20 million. The need for additional jail bed capacity as well as additional spending for health care programs in the County was recognized by the Board who then directed the CEO's office to work with the affected and interested parties and return with additional spending recommendations by March 7, 2000.

There is significant lobbying from health care advocacy groups to have the Board dedicate a large portion of the Tobacco Settlement revenue to health programs. Ballot initiatives restricting the use of Tobacco revenue for health related programs have been proposed by the California Medical Association, the American College of Emergency Physicians, American Association of Retired Persons, the California School Nurses Organization, and a local State Senator.

Department Focus

Internal Audit Department

Prior to the Orange County bankruptcy, the Internal Audit Department was an operating unit in the Auditor-Controller's office, as is typical for California counties. The bankruptcy identified the need for Internal Audit to have increased independence and visibility to more effectively accomplish its function. As a result, the Board separated Internal Audit from the Auditor-Controller's office and put the department under their own cognizance. Moreover, they chartered an Audit Oversight Committee to act as their interface with the department.

The Internal Audit Department is now an independent department, reporting directly to the Board, composed of 23 professionals, of which, 19 are auditors, working as a team. The primary mission of the department is to assess the strength of the County's internal controls, and make recommendations for their improvement where weaknesses or breakdowns are identified. Properly functioning internal controls help assure that the County's management achieves its business goals. In addition, the department partners with management to conduct many of the mandatory audits imposed on the County by state and federal departments as well as to provide financial analysis and operational reviews.

The Internal Audit Department also maintains the County's Fraud Hotline and addresses the reported incidents.

Budgetary Controls

The County maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. Activities of the general fund and most of the special revenue, debt service, and capital projects funds are included in the annual appropriated budget. The level of budgetary control (that is, that level which cannot be exceeded without action by the Board) is the fund-agency unit level, which represents a department or an agency. The County also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered appropriations do not lapse at year end; encumbrances outstanding at that time are reported as reservations of fund balance for the following year's budget.

Financial Information

Management of the County of Orange is responsible for establishing and maintaining internal controls designed to ensure that the assets of the County are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from it. The evaluation of costs and benefits requires estimates and judgments by management.

Single Audit

As a recipient of Federal and State financial assistance, the County is also responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. Internal controls are subject to periodic evaluation by management and the Internal Audit Department.

As part of the County's single audit, described earlier, tests are made of the County's internal controls and of its compliance with applicable laws and regulations, including those related to federal awards. The County's single audit for the fiscal year ended June 30, 1999 is in process.

General Government Functions

The following schedule presents a summary of general fund revenues and other financing sources, and residual equity transfers from other funds for the fiscal year ended June 30, 1999 and increases and decreases in relation to prior year amounts (in thousands).

Source	1998-99 Amount	Percent of Total	Increase (Decrease) from 1997-98	Percent of Increase (Decrease)
Revenues				
Taxes	\$ 178,037	11.2%	\$ 9,895	5.9%
Licenses, Permits, and Franchises	7,185	0.4	543	8.2
Fines, Forfeitures and Penalties	37,628	2.4	6,040	19.1
Use of Money and Property	15,021	0.9	(1,600)	(9.6)
Intergovernmental Revenues	993,162	62.5	61,959	6.7
Charges for Services	223,439	14.1	18,110	8.8
Other Revenues	71,223	4.5	23,960	50.7
Other Financing Sources				
Operating Transfers In	64,068	4.0	11,434	21.7
Proceeds from Capital Lease Obligations	48	--	(3,186)	--
Residual Equity Transfers From Other	487	--	451	--
Total	<u>\$ 1,590,298</u>	<u>100.0%</u>	<u>\$ 127,606</u>	

The following information provides a brief summary of the primary factors attributable to increases in general fund revenues.

Taxes

- Increase in property tax revenues resulting from an improved economy and higher property values
- Increase in transfer taxes due to a larger number of houses being bought and sold

Intergovernmental Revenues

- Expansion of health care programs such as, Health Realignment and Early Periodic Screening Diagnosis and Treatment (EPSDT)
- Unanticipated one-time increase in State mandated reimbursement revenue from prior year claims
- Significant increase in Temporary Assistance for Needy Families (TANF)
- Increased collections for District Attorney's Family Support programs causing incentive money from the state and federal governments to increase
- Increase in Motor Vehicle License Fees received by the County

Charges for Services

- FY 98-99 was the first full year of activity for the Trial Court Agency (established December 1997)
- Increase in the number of positions and equipment used by the sheriff's department for the nine law enforcement contract cities, Orange County Transit Authority contract, and harbor patrol services
- Increase in fees from the recording of home sales
- Increase resulting from an expansion of services for managed care, Children and Youth Services EPSDT

Other Revenues

- Increase due to a change in accounting treatment of retirement contributions from departments
- Increase in District Attorney's excess incentive trust money received from the State for the Family Support program which was used to purchase new computers which were Y2K compliant
- Increase in the repayment of foster care services combined with an increase in the number of caseloads and an increase in cost per case

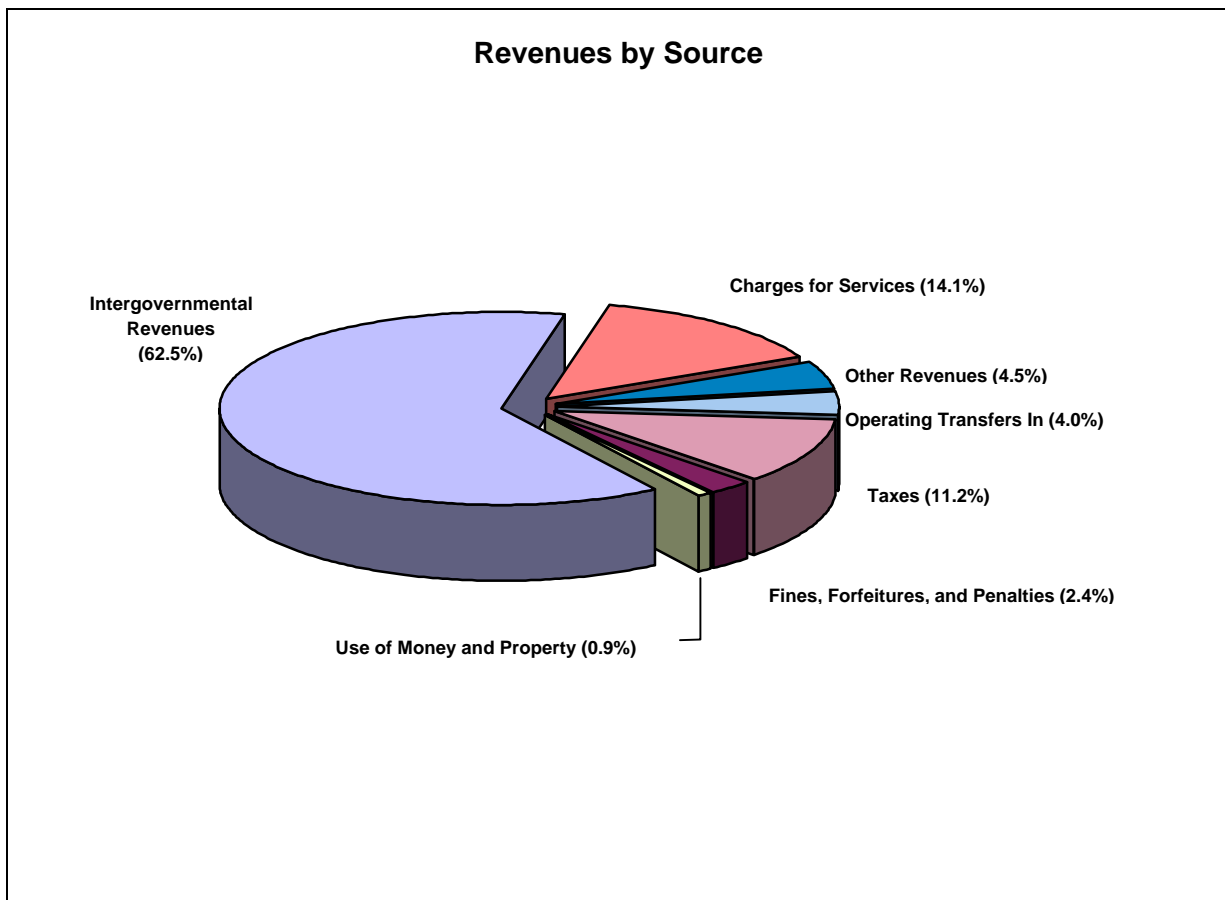
Operating Transfers In

- Transfer from Public Safety Sales Tax Excess Revenue Fund for increased costs for the Theo Lacy Jail expansion project
- Transfer from Designated Special Revenue Fund for increased costs related to Strategic Financial Plan items such as Tourism and Economic Development, Workplace Issues, Deferred Maintenance, and ADA projects

Residual Equity Transfers

- Receipt of money the County had set aside but no longer needed for Court automation because the courts are now under state control

The following diagram shows each revenue source as a percentage of total general fund revenues. Revenues from the Proceeds from Capital Lease Obligations and Residual Equity Transfers from Other Funds are not displayed on the diagram because they represent less than .5% of total revenues.



The following schedule presents a summary of general fund expenditures and other financing uses for the fiscal year ended June 30, 1999, and increases and decreases in relation to prior year amounts (in thousands).

Function	1998-99 Amount	Percent of Total	Increase (Decrease) from 1997-98	Percent of Increase (Decrease)
Current Expenditures				
General Government	\$ 108,074	7.0%	\$	(15.2)%
Public Protection	547,084	35.4	102,304	23.0
Public Ways and Facilities	21,283	1.4		(1.1)
Health and Sanitation	283,014	18.3	25,353	9.8
Public Assistance	453,923	29.4	9,252	2.1
Capital Outlay Expenditures	19,404	1.2	2,670	16.0
Debt Service Expenditures	7,673	.5	7,153	--
Other Financing Uses				
Operating Transfers Out	104,301	6.8	(17,046)	(14.0)
Total	\$ 1,544,756	100.0%	\$ 107,071	

The following information provides a brief summary of the primary factors attributable to the increases or decreases in general fund expenditures.

General Government

- Decrease due to a change in retirement rates resulting from the incorporation of investment income in setting the rates
- Decrease partially offset by
 - Increase in spending for Tourism and Economic Development project
 - Increase in the utilization of data services

Public Protection

- Increase due to first full year of activity for the Trial Court agency
- Addition of several new positions in Probation, District Attorney, and Sheriff departments compounded with a cost of living adjustment
- Increase due to County restructuring transferring facilities operations to the Sheriff's department, as well as an increase in professional services contracts

Health and Sanitation

- Increase in contract services for Behavioral Health's Mental Health Programs, and Alcohol and Drug Abuse Programs
- Addition of 61 new positions combined with a cost of living increase and a low vacancy rate

Public Assistance

- Increase in foster care caseloads combined with an increase in the cost per case
- Increases in expenditures brought about by welfare reform such as an increased need for support services including child care, transportation, and office related equipment and supplies
- Increase offset by
 - A reduction of caseloads and costs for welfare payments to clients in the California Work Opportunity and Responsibility to Kids (CALWORKS) program.

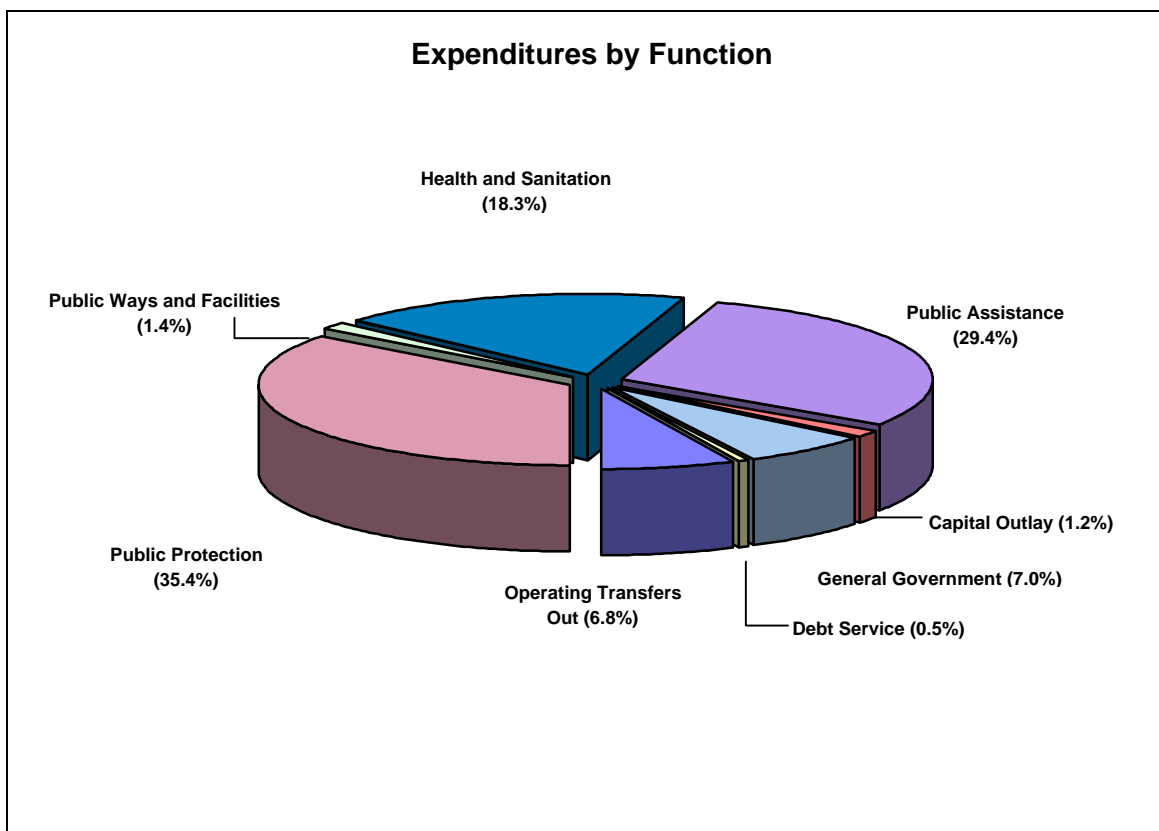
Debt Service

- Increase in principal payments due to the purchase of property previously leased
- Increase due to the recording of capital leases which were previously recorded as operating leases

Operating Transfers Out

- Decrease due to a one time \$31 million transfer in FY 97-98 for payment of the 1995 Refunding Recovery Bonds
- Decrease partially offset by
 - A one-time transfer to establish the fund for Shelter Care Facilities Development and Maintenance

The following diagram shows each category of expenditures as a percentage of total general fund expenditures.



The fund balance of the General Fund increased by approximately \$45 million (28.0% increase from FY 97-98) during the year ended June 30, 1999.

Appropriations Limit

Article XIII B of the California Constitution, as amended by Proposition 111, approved by the voters in June 1990, limits appropriations from the proceeds of taxes. Appropriations are limited to the prior year's amount adjusted by a factor based on population growth and increases in personal income or non-residential assessed value. Proposition 111, in addition to providing greater flexibility in the computation of increases to the appropriations limit, exempts from the limit certain appropriations for fixed assets. The County does not believe it is in danger of reaching its limitation in the next several years.

Enterprise Operations

Airport

John Wayne Airport (JWA) operations are accounted for in an enterprise fund. JWA provides commercial air travel, air cargo, and general aviation services. JWA experienced a decrease of 3.3% in total passenger traffic from FY 1997-98. The decrease had no significant impact on JWA operating revenues, which remained consistent with the prior year. Operating income at JWA is sufficient to enable the enterprise fund to continue servicing debt and meeting operating costs without support from the County general fund.

Waste Management

Integrated Waste Management Department (IWMD) operations are accounted for in an enterprise fund. IWMD continued to operate three waste disposal sites during the year ended June 30, 1999. Fees charged to waste disposal site users are IWMD's primary source of revenue. The results of operations continue to reflect a strong operating income which will allow IWMD to continue to service debt and meet operating costs without support from the County general fund. The County continues to import waste at the Olinda Alpha, Prima Deshecha, and Frank R. Bowerman landfills in an effort to provide the County general fund with monies to assist in the bankruptcy recovery.

Debt Administration

At June 30, 1999, the County had a number of debt issues outstanding. Under current State statutes, the County's general obligation bonded debt issues are subject to a legal limitation based on 1.25% of the total assessed value of real and personal property. As of June 30, 1999 the County had no net general obligation bonded debt. The County's legal debt limit was \$2.4 billion.

Cash Management Policies and Practices

Cash temporarily idle during the year was invested in the Orange County Treasurer's Money Market Commingled Investment Pool. The Treasurer maintains two separate investment pools, the Orange County Treasurer's Money Market Commingled Investment Pool (County Pool) and the Orange County Treasurer's Money Market Educational Investment Pool (Educational Pool), which is utilized exclusively by the County's school districts. The investment of the County and Educational Pools is governed by California Government Code and the Treasurer's Investment Policy Statement (IPS) for the Money Market Investment Pool. The IPS is submitted annually to the Treasury Oversight Committee and the Board, which authorizes investments in the following categories: U.S. Government securities, securities of federally sponsored agencies, domestic commercial paper, negotiable certificates of deposit, repurchase agreements, bankers' acceptances, money market mutual funds, State of California or California Municipal debt, receivable-backed securities, and medium-term notes. The IPS prohibits borrowing for investment purposes, reverse repurchase agreements, and volatile structured notes and derivatives. The maximum allowable maturity of any portfolio instrument is 13 months and the average maturity of all portfolio instruments, on a dollar-weighted basis, will not exceed 90 days. Investments are marked to market on a daily basis. If the net asset value of either the County Pool or the Educational Pool is less than \$.995 or greater than \$1.005, portfolio holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005.

In addition to "Pooled Cash/Investments," the Treasurer maintains individual specific investments for certain funds. These amounts comprise a small portion of the total investments managed by the Treasurer. The permitted investments for these funds are dictated by operation of Federal or State statute, bond documents, and by mutual agreement with the investing entity.

Except for approximately \$58 million, which is being held by trustees and is pledged for payment of bonds or lease obligations (as permitted by Section 53601(l) of the Government Code), the County's deposits are either insured by Federal depository insurance or are collateralized with securities having a market value of at least 110 percent of the deposits in accordance with Section 53652 of the California Government Code. Collateral of 150 percent is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. Portfolio investments, other than money market mutual funds, are held by a third party custodian in the County's name and are classified in the category of lowest custodial credit risk as defined by the Governmental Accounting Standards Board.

At June 30, 1999, the weighted average maturity of the County Pool was 87 days and the Educational Pool was 85 days. The average daily investment balance of the County Pool and the Educational Pool amounted to \$1.65 billion and \$.94 billion with an average effective yield of 5.40% and 5.36%, respectively, for the fiscal year ended June 30, 1999.

Risk Management

The County has maintained a formal risk management program since the mid 1970's. Risk Management functions include risk identification, measurement, avoidance, loss prevention and mitigation programs, liability transfer (by contract and commercial insurance), risk retention, managing claims and litigation.

Resources are budgeted in the Workers' Compensation and Property, Casualty and Risk Internal Service Funds to pay program costs including losses, expenses and administration costs. Commercial insurance coverage is purchased for the County's property and for certain specialized liability exposures such as airport, helicopter, watercraft, business interruption, crime bond, and notary bonds. All other liability exposures, including general, auto, and workers' compensation, are self-insured. Excess coverage for liability and workers' compensation has also been purchased. Various risk control techniques, including employee accident prevention training and regular work-site inspections, have been implemented to minimize losses. Actuarial studies are performed annually to determine the funding requirements for these activities. These studies have taken the impact of the bankruptcy into account.

Other Information

Independent Audit

The general purpose financial statements have been audited by the independent certified public accounting firm of Macias, Gini & Company LLP. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and the Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Institutions." The independent auditor's report, on the general purpose financial statements and the supplemental combining, individual fund and account group financial statements and schedules, is included in the Financial Section of this report. The auditor's reports related specifically to the Single Audit will be included in separate publications.

GFOA Award

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Orange for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1998. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

County of Orange Website

The County of Orange Internet Site at <http://www.oc.ca.gov> provides the citizens of Orange County, and everyone with Internet access, extensive information about Orange County's government and the region. The site receives over one and a half million hits per month and contains approximately seventy thousand documents online. Information that can be accessed on the County's website includes access to all Board of Supervisors' Offices and e-mail, Board Agendas, County Job Listings, Purchasing Bid Solicitations, Financial Information, County Directories and General Information, Assessment Appeals, Court Information, Local Court Rules, Voter Information, County Forms, and much more. In addition, the County's website also provides several online services such as the ability to listen to Board meetings live and archived, online public comments to Board agendas, County purchasing online, ordering birth, death and marriage certificates online, performing a Fictitious Business Name Search, and looking up election polling places. The County continues to improve the website by increasing each citizen's ability to conduct business online with the County.

Acknowledgments

I would like to express my sincere appreciation to the staff from my office, other County departments, and the staff of the certified public accounting firm of Macias, Gini & Company LLP for making possible the timely presentation of this Comprehensive Annual Financial Report. I hope this report will be of interest and use to those in County government, other governmental agencies, and the public interested in the financial activity of the County of Orange.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David E. Sundstrom", written in a cursive style.

David E. Sundstrom, CPA
Auditor-Controller